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ABSTRACT

Strategies used by colleges to respond to reduced external funds available for student financial aid are described. In the 1980s two conditions coexist: increasing educational costs, and federal aid to students that is not keeping pace with costs. Colleges have responded to aid cuts by innovative strategies that involve allocating more funds to grants and scholarships, offering alternative loan measures, efforts to place needy students in campus and off-campus jobs, educating families and legislators about student aid; and reducing institutional expenses. Examples of innovative approaches include: the Scholar Incentive Award Program, which entitles students who maintain a specified grade point average for two consecutive semesters to a tuition remission of 10% to 20%; special aid to families with more than one child at the college; donations by faculty and staff for scholarship funds for minority students; converting loans to grants by canceling the final one-third of the principal for students who have graduated and made all payments on time; and colleges that form loan corporations to raise funds for student loans by selling tax-exempt bonds. Two approaches to cost containment are: avoiding losses from awards that are inappropriately made or loans that are uncollected, and allowing students to complete their degree in 3 years or less, or by altering the academic calendar. (SW)

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INNOVATIONS & OPTIONS

How Colleges Cope With Reductions In Federal Aid For Students

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Whatever else might be said about higher education in the 1980's, two basic truisms apply: 1. Educational costs are increasing; and 2. Federal aid to students is not keeping pace with costs. Taken together, these circumstances have put a pinch on colleges, students, and the families of those in school. A couple of examples tell the story in more concrete terms.

At one small liberal arts college during the mid-1970s, students were guaranteed gift aid that met 80 percent of their need. As federal support declined, the college was compelled to reduce that proportion to 60 percent in 1979 and to 50 percent in 1982. Another college, responding to rising costs, increased its average grant from $2,300 in 1977 to $4,100 several years later; the larger grants, however, could be given to only about one-third of its students.

A family in Colorado has been struggling to send nine children to the private college from which their father graduated. In 1980-81, one child was enrolled and received a Pell Grant of $676. In 1985-86, four members of the family were enrolled; three got $450 each and the fourth $350. This year three children are enrolled but qualify for no Pell Grant assistance at all. Such a situation results not only from declining federal aid relative to inflation, but also from federal regulations that reduce aid as family income increases—this family's current income is $47,000. In addition, as older children graduate, the family can claim fewer dependents. Such families must turn to other sources of aid, probably loans; they may consider less expensive colleges, most likely public institutions; and they may insist that the children put in more hours of paid employment while they are students (*Chronicle*, September 3, 1986, pp. 12-13).

Student-aid programs absorb some $21 billion in federal, state, and institutional dollars, if guaranteed student loans are included in the total. That may seem like a large amount; it is, in fact, 23 percent greater that in 1980-81. When inflation is taken into account, however, the apparent increase during the first half of the decade becomes a *decline* of three percent.

In today's climate, colleges have considerable cause for concern. But they are not paralyzed by anxiety; instead, colleges are reacting to aid cuts with energy and ingenuity.

Further, aid increased much more slowly than college costs. Costs for four-year private colleges and universities have risen 63 percent since 1980 and about 50 percent for public colleges and universities (against an inflation increase of 33.4 percent). Pell Grants during that time increased by only 15 percent in real dollars. According to the American Association of State Colleges and Universities, Pell Grants rose an average of $150 from 1981-82 to 1983-84 while expenses for students at state institutions increased $300. Since the mid-1970s, the proportion of aid from grants has declined from 80 percent to 47 percent of all aid (*Trends in Student Aid: 1980 to 1986*, The College Board, 1986).

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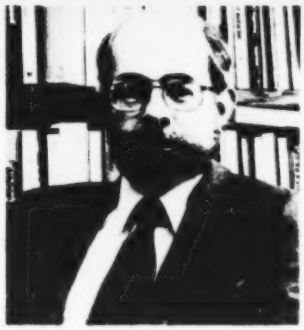

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Meanwhile, the loan business is booming, growing from 17 percent of all aid awarded ten years ago to over 50 percent today. At many institutions, even the neediest undergraduates leave with at least $10,000 indebtedness. As AAHE Vice President Ted Marchese notes, "The rules about paying for college have changed. We've said to young people, if you want an education, here's a loan, pay for it yourself" (*Change*, May/June, 1986, p. 4).

Several provisions of this year's tax reform legislation make future prospects even bleaker. Aid recipients will be taxed on the portion of aid spent for room, board, and incidentals. When federal loans are repaid, interest will no longer be deductible. And, less-favorable tax incentives for donations to colleges and universities are expected to reduce the amount of money that institutions might allocate to student aid.

Congressional action on extending the Higher Education Act moved so slowly this year that further complications have arisen. Federal guaranteed student loans were delivered late this year, forcing some students to cover bills from other funds or to drop out.

In such a climate, colleges have considerable cause for concern. But they are not paralyzed by anxiety; instead, we find colleges reacting to aid cuts with energy and ingenuity. Our evidence comes from responses given by several hundred small colleges questioned about how they have adjusted "to the reduced external funds available for student aid."[1] Their strategies range from direct attacks on the problem, such as creating new scholarships and increasing work opportunities, to more oblique approaches, such as educating parents and lobbying legislators.

Grants and Scholarships

The most straightforward financial assistance for students comes as grants and scholarships. Colleges are attempting to allocate more dollars to these aid programs, but the dollars do not necessarily serve more students. One college was able to assist only five percent more students despite an increase of 94 percent in its aid budget over the previous year. When aid is so limited, decisions about recipients and amounts become especially agonizing.

The Scholar Incentive Award Program entitles students who maintain a specified grade point average for two consecutive semesters to a tuition remission of 10 to 20 percent.

Students with special talents or whose academic record is noteworthy are often singled out for awards. At one college, the Scholar Incentive Award Program entitles students who maintain a specified grade point average for two consecutive semesters to a tuition remission of 10 to 20 percent.

Some institutions give special aid to families with more than one child at the college. "Multiple Student Family Grants provide that if two or more members of a family attend the college during the same year, a tuition waiver is given to the second and each additional family member attending the college."

Faculty themselves sometimes establish targeted scholarship funds, in one case for minority students. ". . . last year approximately 70 members of our faculty and staff donated a total of $8,000 for financial aid to minority students, adding to an existing reserve of $9,900. Annual donations from faculty replenish the fund." Local benefactors of another college have particular interest in persons over 21 years of age who are unemployed. Those individuals may take a full semester at the college at no cost to themselves.

Scholarship matching programs also require the college to provide some money of its own, but, more importantly, they produce new funds. Matching programs are particularly common at church-related schools. "The student must present a check from a local church along with a letter from the pastor or board executive indicating that this is the first time a scholarship has been provided by the church for the student. Through this mechanism many students are now receiving an additional $400 in scholarship assistance." In other words, two hundred dollars provided by the church for the student is matched by the college. Another college asks businesses and churches to "adopt-a-scholar." Donors provide monthly stipends and are encouraged to become personally acquainted with the students they adopt.

Tuition reimbursement programs for employees of local businesses benefit a number of colleges. In one case this has become a kind of barter arrangement between a college and a local hospital. "The hospital

[1]Colleges' responses are drawn from applications to the Brunswick Foundation's Small College Program, in which colleges with enrollments of up to 2,000 students compete for monetary awards. A more complete report, including a description of data analysis procedures, is available from the Brunswick Foundation, One Brunswick Plaza, Skokie, IL, 60077. We thank Ray Hartstein, Foundation Administrator, for his support. Quotations have been edited to insure anonymity and are reprinted by permission of the Brunswick Foundation.

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At some institutions, converting loans to grants may be permitted under certain conditions . . . The college may cancel the final one-third of the principal for students who have graduated and made all their payments on time.

pays the college Blue Cross and Blue Shield premiums in exchange for free tuition for hospital employees. Last year the tuition benefits for hospital employees amounted to almost $90,000. This creative arrangement has resulted in a solid upgrading of employee productivity at the hospital."

Alternate payment schedules are offered by a number of colleges. Prepayment plans are gifts, in a sense, to students and their families. Since payments are made at rates prevailing when the student first matriculates, these plans offer protection against tuition increases.

Some scholarships impose obligations of one sort or another. At one college, juniors and seniors may receive "work scholarships" under condition that upon graduation they work for the donor-employer. Another scholarship carries repayment obligation which the college describes as "moral" rather than "legal." The college suggests that

> . . . repayment begin—as a gift—after a five-year 'grace period,' either starting with graduation from the college or completion of graduate or professional education at another university. The college would assist the student in developing, along the line of existing loan programs, gift repayment schedules and measures of the real cost of the scholarship over time. No interest would be charged, but students would be expected to pay back according to the tuition prevailing at the time of repayment. Instead of repaying loans, students would be making tax-deductible gifts.

Loans

As need for loans grew during the 1980s, some colleges themselves became lenders.

> We are now about to offer an alternative loan program for students in cooperation with other colleges in the state. Under current state legislation, colleges may form loan corporations which can raise funds by selling tax-exempt bonds. The funds raised from the bond sales will provide loans for students at below market rates . . . A student can borrow a minimum of $1000 and a maximum of $10,000 per year.

Potential contributors to another college are invited to "go the second mile" and contribute to the Second Milers Loan Fund, "an innovative trust fund to provide low interest loans to student borrowers. Donors are requested to make investments in units of $1000 in the trust at low interest return for five years. The invested money will be loaned to students at lower than normal interest."

Converting loans to grants may be permitted when the recipient meets certain conditions. "Students who have exhausted other sources of aid will be able to borrow from the loan fund. As an inducement for timely repayment, the college will include a 'cancellation clause' in the loan agreement. The college will cancel the final one-third of the principal for the students who have graduated from the college and have made all their payments on time."

Concern about student retention has led one college to use loans as further incentive toward graduation.

> We have awarded a portion of our grant aid in the form of loan money with the provision that the indebtedness will be forgiven those students who graduate. This policy . . . will serve as a deterrent to those students who are not strongly committed to enrolling at the college with the idea of graduating. At the same time, it will enable the college to put together attractive aid packages for those student who want to enroll at the college with the idea of graduating.

On and Off Campus Jobs

Colleges are reserving campus jobs for financially needy students more than ever before. Jobs on campus have a number of advantages in addition to convenience for the student. They are likely to increase student identification with the institution, and students who feel loyalty to the college are likely to be better workers and more supportive alumni. Administrative costs of the program may decrease as well, particularly

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if the student employment program is cashless. At one college no cash is given to participating students. "Instead, a credit is made to the individual's account based on the number of hours worked and at a rate no less than minimum wage. This has provided needed services both to the school and to the student employees without placing additional demands on the college's cash flow."

Students who take jobs off campus to support themselves as they go through school can benefit from a placement office. Some colleges have hired placement coordinators to assist students and employers. According to one report, such an arrangement produced a return of five dollars in student aid for each administrative dollar invested.

A program called LEADS illustrates another way that colleges and local businesses can cooperate in placing needy students.

> LEADS (Local Employers Assist Deserving Students) is designed to match students in need of financial assistance . . . with local businesses and corporations interested in supporting students faced with the loss of federal and/or state aid . . . Every effort is made to place students in positions related to their fields of study and to make the work experience complementary to that preparation. The program also benefits the employer by providing the opportunity for training a prospective full-time employee on a part-time basis. Moreover, it offers businessmen the opportunity to respond to government's appeal to the private sector to assume its supportive role in higher education.

Educating Families and Legislators

Both colleges and their constituencies are better served when information about aid is available and accurate. Many colleges have set themselves a goal to educate "consumers" about financial aid for students.

> Part of the financial aid problem has to do with the consumer's definition of the situation. That is to say, colleges have been hurt in enrollment based on the prospective student's feeling that little or no aid is available and, therefore, a college education, especially at a private institution, is unaffordable. Through attractive radio and television "spots" and newspaper releases, we are countering this erroneous information; at the same time we are indicating to the public what our institution has to offer.

Failure to repay loans becomes especially problematic as federally-funded loans are replaced by college-generated funds. To reduce defaults, colleges have adopted measures including frequent billing, use of collection agencies, and legal action.

Parents are special targets for education about aid and how to apply for it. At financial aid offices, the emphasis is no longer on distributing money to students, "but rather the focus is on how to help students and their parents pay tuition bills. The financial aid office sponsors financial aid workshops and financial planning seminars, at no cost, for parents of high school seniors."

Effective follow through with parents requires considerable energy.

> In an attempt to help our students better understand financial aid opportunities and responsibilities, the director and associate director of financial aid began making home visits to parents and prospective students. To be certain that funds allocated for financial aid are fully utilized, specific response dates are requested when making awards and follow-up by mail and by telephone is carried out. Top scholarship awards are sent by certified mail to insure their receipt and to signify their importance.

Legislators are another target for educational efforts. Colleges lobby to promote increases in student aid or at least to prevent decreases. In one case, rules which restricted benefits to students at private institutions were removed by legislative action. In another, legislation was passed to permit use of tax-exempt bonds for aid purposes.

Controlling Costs

If institutional expenses are reduced, money becomes available for reallocation to student assistance.

Public confidence in the value of post-secondary education has increased dramatically . . . That reservoir of public good will may, in fact, be our greatest asset in the continuing debate over student aid.

Two approaches to cost containment are noteworthy. One deals with avoiding losses from awards that are inappropriately made or loans that are uncollected, and the other deals with the academic calendar.

Accurately determining student need is time-consuming. One financial aid office saves time by emphasizing more uniform application of their increasingly stringent eligibility criteria and offers careful explanations to students and parents to avoid misunderstandings. The result is "a more equitable sharing of the cost of attending college between and among students, parents, college, and other constituencies."

Misrepresentation of financial aid status sometimes occurs. The following policy is an attempt to prevent one kind of misrepresentation.

> We announced a policy which states that any dependent student who changes his status to independent will not be eligible to receive institutional financial aid funds. Before the adoption of our policy regarding changes in dependency status, we knew that some students from families with incomes above $75,000 were establishing financial independence and thereby qualifying for large financial awards. This took funds away from our students from families with true financial need.

Some students who properly receive aid in the form of loans, fail to repay them. Such failure becomes especially problematic as federally-funded loans are replaced by college-generated funds. To reduce defaults, colleges have adopted a variety of measures including frequent billing, use of collection agencies, and legal action.

Student need is obviously directly related to tuition levels and to living expenses during the academic term, and several institutions have found ways of decreasing the total impact of these costs. On one campus, the key is summer school attendance. "A dramatic two-thirds reduction in cost per course, with opportunity to take a maximum of eight courses, will allow a student to accelerate his education and complete his BA degree in three years or less, depending on the summer offerings in his/her major."

On another campus, a full year's tuition can be saved through the Two-Ten Program.

> The school calendar contains two four-month semesters. With no additional tuition charge, a student may elect to attend a two-month term in May and June. Should she select three short terms, a student can be graduated in two years, ten months. The total tuition cost of this schedule is, therefore, only three-fourths of the expense for the traditional four-year schedule. The majority of current students at the college are saving a year's tuition expense by participating in the program.

A Continuing Challenge

We applaud the evident resourcefulness of these programs, but short-term strategies, however ingenious, are no substitute for considered and coherent policy about the place of higher education in our society. In this policy debate, colleges must vigorously argue their positions on a number of complex issues: how qualified students from a diversity of economic backgrounds can be assured of access to private as well as public institutions; how state funds can replace federal funds as federal dollars decline; how benefits equivalent to those now gained by colleges from tax-deductible contributions can be preserved or regained from other sources; and how policies can be devised to balance the family's responsibility for educating its young with society's responsibility for educating its citizens.

It is heartening to observe that public confidence in the value of postsecondary education has increased dramatically in recent years. In a recent Gallup poll, for example, the proportion replying "very important" when asked "How important is a college education today?" soared from 36 percent in 1978 to 64 percent in 1985.[2] That reservoir of public good will may, in fact, be higher education's greatest asset in the continuing debate over student aid. ■

[2] *Gallup, A.M. The 17th annual Gallup poll of the public's attitudes toward the public schools.* Phi Delta Kappan, *1985, 67(1), 35-47.*